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Prince Edward Island

Auditor General's Report

1981-82

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THE HONOURABLE THE SPEAKER AND

MEMBERS OF THE LEGISLATIVE ASSEMBLY

OF THE PROVINCE OF PRINCE EDWARD ISLAND

In accordance with the requirements of The Audit Act, the undersigned has the honour to present to you the following report for the fiscal year ended March 31, 1982.

Respectfully submitted,

T. Kaptein, C.A.
Auditor General

Charlottetown

Prince Edward Island

March 14, 1983

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1. SCOPE AND ACKNOWLEDGEMENTS

As indicated by the contents of this report, substantial progress has been achieved in performing comprehensive audits on Government and its agencies. While financial audits continue to demand the bulk of my resources, I have, through improved organization and efficiency, been able to strike a better balance between the financial and operational mandates of my Office.

In both my financial and comprehensive audits I have received good co-operation from the Ministers, Deputy Ministers, Heads of Crown Corporations and the many other government officials I have come in contact with. I am pleased with the continued and diligent support of my staff towards achieving the goals of this Office.

2. INTERPRETATION OF THE REPORT

Many of my audit findings are accompanied by recommendations for improvement. Although I expect that due consideration will be given to the underlying problems by the appropriate people, the recommendations are in no way intended to infringe on the management rights or duties of any government officials. They are merely intended to provide one possible course of action which may eliminate a weakness in control or an inefficiency. I feel that generally, my recommendations are being received in this positive light.

3. PUBLIC ACCOUNTS COMMITTEE

The Public Accounts Committee is generally recognized as an integral and important part of any democratic system; it represents a public forum critically examining government expenditures and management on a non-partisan basis through a review of the Public Accounts and the Report of the Auditor General.

Its work is done on behalf of the Legislative Assembly and quite often involves the endorsement and follow-up of recommendations made by the Auditor General. Prompt implementation of recommendations can save substantial funds. This is amply demonstrated in my past reports and again in this year's section on the Public Works Branch of the Department of Transportation and Public Works.

An excellent study "Improved Accountability - Canadian Public Accounts Committees and Legislative Auditors" was conducted under the auspices of the Canadian Comprehensive Auditing Foundation and its report was released in September 1981. It was discussed at last year's meeting of the Public Accounts Committee but no further action resulted.

The study notes that there is a relationship between the Committee and the Auditor and explains it as follows: "Just as Public Accounts Committees need Auditors if they are to play their proper roles in holding governments accountable, so do Auditors need Public Accounts Committees to ensure that their findings and recommendations are given a public airing..... Neither Public Accounts Committees nor Auditors acting alone can ensure accountability. But a strong and effective Public Accounts Committee working closely with a credible and competent Auditor can help ensure that the Legislative duty to hold the administration accountable for the management of public money and resources will, in fact, be discharged."

One of the most important recommendations in the report in my opinion is to appoint a member of the opposition as Chairman of the Committee. This is the practice in eight of the ten provinces as well as the Yukon Territory and conforms to long established British practices. An opposition chairman, in a committee with a government majority, symbolizes the non-partisan nature of the committee's work and enhances the accountability process.

I once again respectfully urge the Legislative Assembly to adopt the report, to express its desire for an effective Public Accounts Committee and

support the Committee in its efforts to enhance its role in the accountability process. For the benefit of the discussions I have reproduced a summary of recommendations made in the study as Schedule "E".

4. OFFICE OF THE AUDITOR GENERAL

My policy has always been to emphasize efficiency in the performance of duties and to stress quality of staff rather than quantity. This has now made possible a reorganization of the office into two sections: one for financial audits and one for comprehensive audits. Each section is under separate managers resulting in improved efficiency.

Before 1982 both the operational and management aspects of the entities audited were examined along with their financial statements making supervision and time control difficult. Although the staff has been instructed to continue identifying operational weaknesses, the actual investigations are now handled primarily by the comprehensive audit group. This reorganization has also resolved an unsatisfactory but previously unavoidable situation requiring audit managers to supervise financial and comprehensive audits simultaneously.

During the year two audits were lost: the Laboratory Council, which was transferred to the Queen Elizabeth Hospital and the Addiction Foundation, whose activities were transferred to the private sector. Annual audits of the Children's Trust Fund and the P. E. I. Marketing Board have been discontinued. In future years I will conduct minimum review procedures on the operations of these agencies each year with a full scale audit once every five years or more often if the review procedures indicate a need.

The cumulative effect has been an increase in the comprehensive audit group from three to six full time staff members. Implementation of the reorganization and providing training to the new staff members in the comprehensive

audit section made it impossible to fill one vacancy which arose during the year. A replacement will be on stream in June 1983. I still require two additional positions in order to conduct a comprehensive audit of each government department and crown agency once every five years. This is a minimum requirement based on the assumption that substantial government-wide improvement in administration and documentation will be achieved over the next few years.

5. ACCOUNTABILITY AND PLANNING COMMITTEE

Last year I announced Cabinet's intention to create a committee with the task to establish guidelines for the management processes that must be in place before accountability can become meaningful. Since then, the Policy and Priorities Board has been abolished and, Cabinet and its sub-committees have assumed its functions, an approach that can only be effective if departmental management processes are substantially improved. This has lent added emphasis to the importance of the committee.

I strongly recommend that Cabinet direct the committee to become active and complete its task as soon as possible.

6. A PLAIN MESSAGE ON FINANCIAL MANAGEMENT IN GOVERNMENT

Internationally and nationally, governments, at all levels are facing mounting debts, increasing deficits, inflation, high interest rates and high unemployment. In Canada federal deficits are anticipated to be in the order of $25 to $30 billion and total deficits for all provinces for 1983 are expected to total $10 billion. Taxpayers, trying to cope with a tough depression, have begun to ask some hard questions: How could this happen? Can it be stopped? Will it be stopped?

How could this happen? In a democracy a hard fact of life is that politicians have a major concern: to get re-elected. They need credits for new programs and can ill-afford the adverse reaction to discontinuing existing ones. Another hard fact is that voters allow themselves to be bought by promises of goodies, expecting others to pay the cost. By saying let government do it, they tend to forget that ultimately they are the government and will have to pay higher taxes.

Programs were easiest to create or expand when funds were abundant. Many of the most costly programs are countercyclical, i.e. low cost in times of prosperity but costly in times of depression creating unavoidable deficits. Examples are unemployment insurance benefits, welfare payments, social pensions and student loans. The high cost of these programs is pushing the deficits higher and higher.

Can it be stopped? Yes, but only with a two way effort. Taxpayers demands must become more realistic and politicians must make a strong effort to resist making promises and start explaining the financial consequences of these demands. The perception of "leadership" as a capacity to say yes instead of no to demands must change and restraint mechanisms directed at value for money must be used.

Will it be stopped? Only if taxpayers learn to accept government as a catalyst instead of a cure-all and the politicians' shortsightedness is replaced by a strong political will to change tradition. If it is not stopped the consequences are: continued inflation, high interest rates, high unemployment, increased taxation, and more and more borrowing.

Budgetary Practices: Historically, the performance of a Minister of Finance has always been measured by his ability to balance the budget. In today's depressed economy the combined impact of countercyclical expenditures and reduced revenue make deficits almost unavoidable and leave little room for much needed employment

stimulating programs. Even in prosperous years, when funds were abundant, deficit spending was sometimes preferred over setting a portion of the funds aside for a rainy day. These accumulated deficits and occasional surpluses are reported as the net debt, instead of more accurately as accumulated deficits which is the practice in the private sector. The net debt is an indicator of the extent to which we live beyond our means and of the extent that future generations will have to pay for current excessive expenditures.

Good short and long term budgetary practices and provisions for debt retirement can restrain the trend of ever increasing deficits and debts. However, annual budgets are usually limited to matching revenues with estimated or guestimated expenditures. The state of the art calls for precisely planned expenditures with clearly defined program outputs. Long term budgeting is virtually unknown in many governments. More efforts are usually devoted to justification of the net debt than to ways and means by which it can be controlled or curtailed. Today, more efforts go into portraying deficits as a virtue rather than the necessary evil they are. Restraints that could be applied to curtail deficits and debts are simply absent.

On Financial Management in P. E. I.: Over the last decade the following improvements towards prudent financial management have been made, largely as a result of recommendations in my annual reports and a co-operative attitude on the part of officials in the Department of Finance:

- Our financial position is reported on a consolidated basis.
- A well defined and maintained debt retirement program exists. Increases in sinking funds now almost offset the annual deficit on capital account.
- Most deficits of crown corporations are provided for by appropriations in the year in which they are incurred.
- A mandate to audit "value for money" was provided in the 1981 Audit Act.

- Government has matched employee contributions to the pension funds for the last three years.
- The beginning of a political will to improve management is demonstrated by the intent to create an Accountability and Planning Committee and by an expanded mandate for Treasury Board.
- A decision has been made to retain sinking fund surpluses, as a reserve towards redemption of unfunded debt.

Although many improvements have been made, much remains to be done:

- Long term budgets reflecting the impact of countercyclical expenditures and multi-year programs are not prepared.
- Control over capital expenditures can be improved.
- Maintenance expenditures on highways are now improperly charged to the capital budget. As a result reporting of surpluses/deficits on current account is distorted.
- Highways are deteriorating faster than we are paying for them.
- Net debt is substantially understated.
- The political will for efficient management is still weak. The Accountability and Planning Committee, created a year ago has not made any progress; Treasury Board has not made any attempts to implement its widened mandate.
- Businesslike management processes: planning, directing, controlling and program evaluation need substantial improvement.
- Accountability is virtually nonexistent, in part as a result of an ineffective Public Accounts Committee.

Conclusion: The improvements in financial management made over the last decade, indicate that our government has been moving in the right direction. But progress was slow. Improvements in budgeting, and reporting are needed.

Most of all much remains to be done in the area of administrative management aimed at accountability and value for money. Excellent potential for savings exist as is abundantly clear from our current and past reports. I suggest this tough depression calls for fast rather than for the slow action taken in the past.

7. THE NEED FOR PRACTICAL PROGRAM EVALUATION

The current economic conditions are forcing governments everywhere to tighten their belts and P. E. I. is no exception. Increasing taxes in these circumstances is a last resort. The responsible way of achieving restraint without substantial reductions in essential services is to significantly improve management processes such as planning, directing, controlling and program evaluation. In my audits I observed shortcomings in all elements of the management process, but one in particular has been neglected entirely: program evaluation.

Program evaluation is the systematic gathering of verifiable information on a program and demonstrable evidence on its results and cost effectiveness. Too often it is perceived as a complex and difficult process, because in the past evaluations attempted to arrive at complex scientific conclusions, that only specialists could make. Departmental managers therefore tended to shy away from it, rather than to look for practical alternatives. Fortunately a very practical guide to program evaluation, prepared by the Comptroller General of Canada, is now available. This guide puts to rest management's fears by formulating a framework for practical program evaluation that can be performed by existing staff and provide valuable input to planning and budgeting processes. If implemented in our jurisdiction it would be an important element in avoiding crisis management situations.

In my opinion the duty to ensure that program evaluation is implemented

clearly comes under the definition of financial and administrative management in Sections 2 and 3 of the Financial Administration Act.

I strongly recommend that Treasury Board give a high priority to implementation of a practical program evaluation process in consultation with Deputy Ministers and Managers of Crown Agencies.

8. TREASURY BOARD

Administration: The duties and responsibilities of Treasury Board are presently covered by both the Financial Administration Act and the Regulations under the Legislative Assembly Act. Treasury Board Regulations are still in force notwithstanding the fact that the sections of the Legislative Assembly Act which authorize the making of the said regulations were repealed in 1980. Section 33(1)(e) of the Interpretation Act states that where an enactment (or part of an enactment) is repealed and another enactment is substituted therefore all regulations made under the former enactment remain in force and shall be deemed to have been made under the new enactment insofar as they are not inconsistent with the new enactment, until they are repealed or others made in their stead.

Although the Interpretation Act settles the legal priorities, conflicting interpretation could arise and create problems. The simple and certainly more elegant solution would be to repeal the regulations under the Legislative Assembly Act and if necessary to issue new regulations under the Financial Administration Act.

Another item concerning Treasury Board administration which impacts on my audit responsibilities is the publication of Treasury Board policies. For a number of years I have recommended that a manual containing all Treasury Board policies and directives be issued. The Chairman of the Board has recently

advised me that "the issuance of a comprehensive Treasury Board Policy Manual has been under consideration recently and it is anticipated that it may be issued in the autumn of 1983."

Implementation of Recommendations: Following is a summary of last year's recommendations with comments on their disposition:

- Insurance Practices: My recommendation called for efficient, economic and effective administration of the insurance program. Specifically, I recommended that a study of insurance practices within the Crown Agencies be proceeded with as originally planned. In response, Treasury Board has decided to re-activate the Insurance Practices Committee to review the present situation and to make recommendations.

  In addition, the Board extended coverage under the general government property insurance plan to certain Crown Agencies. The Liquor Control Commission however was not among the Crown Agencies to which the general government insurance plan was extended. Potential annual savings of as much as $20,000 in insurance carried by the Liquor Control Commission are reported in Section 27 of this report.

- Inactive Committees: Last year, I made several recommendations dealing with committees which had been established by Treasury Board but which had remained completely inactive. I expressed my concern that this abuse of the committee approach to specific questions should be corrected and that committees should be held more accountable with precise terms of reference and specific reporting responsibilities.

  In response, Treasury Board abolished three committees and re-activated several others. There was no indication that the intent of my recommendations would be followed in future with a more rational approach to committee establishment.

One committee appointed to consider financial reporting was re-activated with the expressed intent that it remain dormant until certain CICA pronouncements are made. I fail to see the purpose of establishing a committee which is meant to remain inactive. In my opinion, this committee could do plenty of work prior to pronouncements that may be a long time off.

- Payrolls: This recommendation dealt with procedural matters in the payroll system and I am satisfied it has been appropriately implemented.
- Land Development Corporation: I recommended that Treasury Board review the collection activity and lease administration at L.D.C. and cause management to take forceful and prompt action. The Board recently indicated to me that it had been advised that conditions were improved.
- Hog Commodity Marketing Board: This recommendation involved the need for Treasury Board action in connection with the Hog Stabilization Program. Treasury Board has indicated it will continue to monitor the situation and attempt to ensure that the original objective of the fund is achieved. During the year I intend to review the extent and appropriateness of monitoring procedures.
- P. E. I. Housing Corporation: My recommendation involved a replacement reserve established by appropriations in prior years and now being spent for other purposes. Treasury Board indicated that it had given specific approval to the Housing Corporation to do this. In my opinion section 27(1) of the Financial Administration Act clearly states that unexpended appropriations shall lapse. See Section 26 of this report. I recommend that Treasury Board review this situation in light of the Financial Administration Act.
- Highway Strengthening Improvement Agreement: I recommended that the most efficient method of transferring funds be employed for claims under this and all other cost sharing agreements. Although the Board has recently indicated

that it shares my concern for efficient cash flow, a year has gone by and nothing has been done as indicated in this year's section on claims in this report.

- Canada Assistance Plan Claims: Because these particular claims are so far behind, I recommended that Treasury Board cause action to be taken. The Board has recently responded citing difficulties including the death of a key employee and promising action. Although it is anticipated that the matter will be resolved in the near future, it has been eight months since the employee died and it is my opinion that this simple matter which is costing thousands of dollars could have been resolved long before now.
- Development Plan Claims: My recommendation was for the Board to review its management procedures with a view to maximizing the benefits to the Province of the remaining funds under Phase III of the Development Plan. Gauging from the Board's response it seems to have misinterpreted my recommendation as a concern that funds might lapse. My concern was and still is that the management procedures in place now will not ensure that maximum value for money is obtained for the scarce remaining funds available under Phase III of the Development Plan.

1981-1982 Recommendations - Consider in the context of applicable sections

- Section 7 - The Need for Practical Program Evaluation: I strongly recommend that Treasury Board give a high priority to implementation of a practical program evaluation process in consultation with Deputy Ministers and Managers of Crown Agencies.
- Section 9 - Comprehensive Audit - Public Works Branch: I recommend that Treasury Board update its accommodation standards and ensure that the Services Division receives sufficient authority for enforcement or alternatively that

Treasury Board take over the responsibility for enforcement in instances where the Division reports agencies of government failing to adhere to the standards. I recommend that Treasury Board establish clear and complete terms of reference covering responsibility for risk management, insurance management and how to deal with non-adherence by any government agency to the guidelines.

- Section 10 - Capital Project Management and Control: In light of the seriousness of the matters raised I recommend the following action be taken by Treasury Board: ensure that its own staff adheres to the Capital Projects Management System; strengthen the system by incorporating the recommendations of the consultant; ensure that the system is implemented at all levels and that a capital projects master plan is developed.
- Section 15 - Department of Health and Social Services - Pharmacy: I recommend that Treasury Board make a sunset review of this in-house operation.
- Section 26 - P. E. I. Housing Corporation: I recommend that Treasury Board appropriate sufficient funds to write down the net book value of the asset to its realizeable value. I further recommend that Treasury Board face the reality of the situation, recognize the inherent losses and make a sunset review of this project to determine its disposition.
- Section 27 - Prince Edward Island Liquor Control Commission: I recommend once again that Treasury Board proceed with a review of insurance for all Crown Corporations and that it define policies aimed at attaining the kind of savings reported in that section.
- Section 29 - Claims Under Cost Sharing Agreements: In view of the potential savings I recommend that Treasury Board promptly expedite the centralization of claims administration in the Department of Finance with provision of adequate staffing.

I further recommend that the Board direct that all provincial

representatives as part of their negotiations of Federal/Provincial cost sharing agreements make every effort to negotiate provisions for submitting advance claims and for payment by bank transfer.

9. COMPREHENSIVE AUDIT - PUBLIC WORKS BRANCH

To conduct an audit of the entire Department of Transportation and Public Works would have been more desirable but would have been too much for the limited resources of the comprehensive audit section of my office. I therefore, decided to conduct an audit on the Public Works Branch first and the Transportation Branch later. The Public Works Branch consists of two divisions, each subdivided into several sections as can be seen from the attached organizational chart, Schedule "F".

Potential for Savings: My audit revealed the following:

- Identified potential savings are $1.7 million in a budget of $12.4 million.

Maintenance	$ 700,000
Fuel	200,000
Cleaning	375,000
Space Utilization	350,000
Insurance	55,000
	$1,680,000

- Matters pertaining to planning, organization and management which require improvement and which in my experience will lead to significant additional savings.
- Potential for substantial savings in capital construction exist and are dealt with in Section 10.

Maintenance: The Buildings Division has a budget of $7.5 million in 1982/83. National standards for maintenance and repair of government buildings were

determined to be approximately $1.30 per square foot per annum. Actual cost for the P.A.B. Complex in 1981/82 was $4.17 per square foot. On that basis potential savings for the P.A.B. Complex alone are about $700,000 per year. This does not include potential savings for the many other buildings the government owns or leases. Maintenance costs are obviously way out of line. In my opinion, maintenance planning must be improved considerably and would result in significant savings through input at the building design stage to minimize life cycle costs, through more effective use of available resources and through more realistic manpower planning. Further in my opinion control over maintenance staff must be improved through the use of such devices as work schedules, inspection reports, maintenance request logs, time sheets and regular summary reports. Under existing circumstances, there is no way of determining whether the maintenance section is delivering value for money, whether maintenance staff is working to capacity or even whether all necessary maintenance is being completed. Application of cost standards indicate that serious problems exist.

Energy Conservation and Fuel Costs: At one time an organized conservation program existed. This has now been abandoned for no apparent reason. In my opinion additional potential savings exist through conservation. Fuel oil was not tendered for the 1981-82 heating season. It was noted that several other institutional consumers received discounts of 10-12%. Tendering in 1981-82 would have saved as much as $200,000. I understand that all fuel oil has been tendered for the 1982-83 heating season.

Cleaning: The Services Division is responsible for the cleaning of space in more than seventy locations. Most of the space is cleaned by full time service workers, some space is cleaned by contractors and some by the landlords under lease agreements. Our cleaning costs for office space in 1981 using government personnel was $2.10 per square foot almost triple the standard cost of $.77 identified by the

Building Owners and Managers Association (B.O.M.A.) for all Canadian Government office buildings. Where Government used private contractors the average cost was $1.24 per square foot in 1981 substantially lower than in-house costs but still significantly higher than the B.O.M.A. composite standard. By applying the standard cost to all P. E. I. Government office space it can be concluded that potential savings of $375,000 per year exist.

Manpower planning appears to be the most serious stumbling block to economic and efficient cleaning. My audit revealed when comparing the cleaning costs of the Jones Building and the Shaw Building that salary costs for the Jones Building were 5% higher even though the floor area is 24% lower. The quality of supervision can and should be improved as well by the implementation of written cleaning and work standards, checklists, inspection reports and regular spot checks. Potential savings were also noted in the acquisition of cleaning supplies. Tendering for supplies in economic order quantities would save between 30% and 50% on some commodities.

Space Utilization: Throughout North America the average space required per employee is consistently between 200 and 250 square feet. By applying this standard to the P.A.B. Complex it was determined that between 27,000 to 31,000 square feet of usable space could be freed up. Other examples outside the P.A.B. Complex exist such as the Health Building in Summerside. In total estimated realizeable savings are over $300,000 per year. For example, the lease on the Albert Thomas Building, now occupied by the Department of Labour expires in April 1983. It is obvious that the P.A.B. Complex has more than enough space to house this department. This would represent an immediately realizeable saving of $70,000 per year.

One problem identified was the ineffectiveness of Treasury Board accommodation standards created in 1974. Entitlement standards have not been

enforced. I recommend that Treasury Board update its standards and ensure that the Division receive sufficient authority for enforcement or alternatively that Treasury Board take over the responsibility in instances where the Division reports agencies of government failing to adhere to the standards.

Insurance: Since 1973 I have written on this topic. Suffice it to report that as much as $55,000 could be saved by government funded or subsidized crown agencies if they would participate in the general government insurance policies rather than purchasing from individual insurers. The Division has no jurisdiction over other agencies of government. In addition it has not been given clear terms of reference for its duties and responsibilities regarding insurance. I recommend that Treasury Board establish clear and complete terms of reference covering responsibility for risk management, insurance management and how to deal with non-adherence by any government agency to the guidelines.

Others Matters which could lead to Additional Savings: In addition to the $1.7 million in savings reported above, other savings may be had, which are difficult if not impossible to quantify. In my experience, savings resulting from implementing good management where such is lacking are very substantial. Following are the observations of a more general nature:

- Integration of Activities: The functions of the Department of Transportation and Public Works have over the years been combined, separated and recombined. The extent of planning that has gone into these successive decisions is not clear.

  In 1979 a reorganization was announced that was aimed according to a press release at "a better grouping of services within a single departmental framework". What this means in practical terms is not clear, but it is not unreasonable to assume that the basis for combining Highways, Public Works and Parks was the assumption that all are engaged in engineering activities.

The various components continue to exist, now under one roof, in much the same form as they were before, that is, with an almost negligible integration of activities and little if any savings in manpower.

The combining of Transportation with Public Works, Parks, etc. has created personnel problems. Job descriptions and classifications have not been revised to reflect the current situation and this has led to employee discontent. Quite often, any change is seen by an employee as an opportunity for reclassification upward. This perceived attitude may explain the apparent reluctance on the part of management, Treasury Board and the Civil Service Commission to face the reality of what has occurred in the Department of Transportation and Public Works. While I can appreciate this dilemma, I do not consider the difficulty of the task an excuse for leaving an untidy situation unattended.

- Mission, Objectives and Standards: The mission and objectives of the Public Works Branch and its divisions are not defined or at least not documented. Nor are performance and work standards. Without these, employees will not know what is expected of them and become less productive. The absence of quantifiable measures of performance, work standards, etc. which encompass due consideration for economy, efficiency and effectiveness constitutes a significant weakness in organization and planning. It is strange that this would occur in an engineering environment. Engineers are usually very conscious of and well known for their mathematical precision in planning, scheduling, etc.
- Management: Good management entails planning, directing, controlling and program evaluation. Several examples in this report and more in the full audit report presented to departmental management, indicate that substantial shortcomings exist and much improvement is needed.

- Capital Projects: My comprehensive audit included an examination of capital projects management and control as exercised by the Buildings Division. I have supplemented my findings very recently by having an engineering firm conduct a specific review. The results of my findings are reported in a separate section entitled "Capital Project Management and Control".
- Management Information System: Very little evidence was found of internal reporting for management purposes. This is not surprising as the department lacks the proper accounting systems to generate this information.

Recommendations: Many recommendations have been made to the Minister. What the recommendations are, is to the reader, I believe self-evident from this report. Copies of the complete report of 73 pages can be made available to the Public Accounts Committee if it so desires.

Audit Conclusion: It cannot be said that the Public Works Branch has accomplished its purposes, because none have been clearly enough established to draw a conclusion. Whatever its purposes are, it certainly has not met them economically and efficiently.

10. CAPITAL PROJECT MANAGEMENT AND CONTROL

Evaluation of the technical aspects of project management and control are beyond my competence as an auditor. I therefore availed myself of the services of a national engineering firm that specializes in these aspects of construction activity. My objective was to have an assessment made of the adequacy of management and controls and to ascertain whether or not value for money was obtained.

The consultant submitted his findings in a report, copies of which have been submitted to Treasury Board, in order that it may supplement and revise its Capital Project Management System and to Public Works in order that it may implement recommendations related to capital construction management, especially

those directed at improvements in control and documentation.

I would like to emphasize that the study was done for audit purposes only and should not be construed as a management study. Whatever more may be needed will be entirely the responsibility of Treasury Board and the Department. The report drew attention to important breakdowns in control and potential for abuses. Generally the existing system is inadequate for ensuring economy and efficiency. It is also inadequate for accountability purposes, especially where division of responsibilities between various agencies of government, consultants, contractors and sub-contractors is involved.

The report contained thirteen detailed recommendations, across the entire spectrum of Capital Project Management along with the following basic conclusions:

- The Capital Project Management System approved by the Treasury Board should be extremely effective in solving some of the issues if and when it is implemented.
- Wasted money would not be easily identified if it were necessary to do so. However, propriety is not assured by the systems and the idea of "trade-off" through identification of alternatives is not usually available to the Province.
- The procedures and processes of selection of consultants, development and approval of projects, cost control, design control, bonding, inspection, close out and payment control leave the Province vulnerable to abuse. There exist only minor guarantees in these processes to protect the Province from costly and/or dangerous practices.
- The notion that there may have been or is expected to be, any wrong doing did not arise. However, it was obvious that Department personnel are sometimes subjected to unfair pressures from inside and outside of the Department that raise questions as to propriety of the actions, and that the procedures in place do not serve to assure prevention of conflict of interest or impropriety.

- The Province would gain valuable knowledge from a detailed examination of the technical aspects of the Sleepy Hollow Correctional Centre: not as an exercise to establish blame for difficulties, but as a living study on what the process might have been like had certain control procedures been in force at the time. Different choices might have been made from potential alternatives.

I made a critical review of the Capital Project Management System. Following are my observations:

- Treasury Board although it designed and approved the system does not do its share.
- Public Works has not prepared the required master plan summarizing the capital expenditure program.
- Client approval at the final design stage is not provided for in the system.
- The system does not provide for control by the Legislative Assembly which is the key to the whole exercise.
- The audit trail to ensure that value for money is received, is totally inadequate.
- The Capital Project Management System does not address itself to highway construction which forms a very major portion of the capital budget.
- Documentation for capital projects is poorly organized and not controlled or protected.

Capital expenditures represent a substantial portion of the total budget and it is not unreasonable to assume that over time millions can be saved by a well controlled system. In many of my previous reports I have provided instances of cost overruns and waste in capital projects. Current examples are:

- A wood gasifier at the Forestry Complex on Hurry Road is still not operating after more than two years and expenditures of over half a million dollars.

- Failure to protect itself against default by the primary contractor for reconstruction of the Courthouse, has cost the Province $300,000.
- Structural problems may exist at the Sleepy Hollow Correctional Centre. Only a more indepth examination can establish whether or not these could have been avoided.
- The Salt Storage Building on Riverside Drive has exceeded original estimates by more than 18%.

In light of the seriousness of the matters raised I recommend the following action be taken by Treasury Board: ensure that its own staff adheres to the Capital Project Management System; strengthen the system by incorporating the recommendations of the consultant; ensure that the system is implemented at all levels and that a capital project master plan is developed.

11. GOVERNMENT GARAGE INVENTORY

The Government Garage is a large operation with an annual budget in excess of $6 million. In an organization of this size it is reasonable to expect strong administrative control and a well designed management information system which is vital to economic and efficient operation. My audit was restricted to the management and control over inventory but there were indications of weakness in other areas. Absence of the necessary controls can lead to waste and losses as has been demonstrated in many of my previous reports.

Inventory Control: During the year my Office conducted a comprehensive review of the $700,000 garage inventory to assess the adequacy of controls. Physical controls such as fencing, access to storage rooms, etc. were found to be reasonable. However, inadequate accounting controls have rendered the physical controls virtually meaningless.

The turnover ratio, the cost of parts used during the year divided by the inventory value, is a prime indicator of efficiency. Local equipment dealers and operators advised me that a turnover of three times is reasonable. The Garage did not compare well. Its turnover is only two times per year, indicating that investment in inventory is about $250,000 too high. Annual costs of interest on investment, storage, risk of obsolescence, etc. are well in excess of $50,000 and represent avoidable waste.

While I appreciate that some specialized equipment is used for which parts are not always readily obtainable and that pressures to provide perfect and continuous service exist I feel strongly that the quantity of many items in stock could safely be reduced. Rather than having all parts on hand it might be cheaper to air freight infrequently used items when an emergency arises. Management has recently indicated to me that inventory turnover would be closely monitored, however, I received no indication that any effort would be made to reduce the overall investment in inventory.

Although there is no indication of abuses, neither the system nor the staff could provide me with the assurance that there is good control. For example, staff members who in my opinion should have been knowledgeable about the monthly maintenance report were unable to explain the apparent high rate of gas consumption in the half ton truck category or even to confirm whether the consumption figures were expressed in miles per gallon or litres per hundred kilometers. Control over attractive items such as gasoline and tires should be strengthened by reconciling purchases to usages and closely monitoring mileage per vehicle and by keeping track of all tires by serial number.

Maintenance Reports: The monthly Maintenance Report is a computer listing of vehicles and machinery within various categories and shows the most recent twelve

months operating and maintenance costs by vehicle. In my opinion it is well designed and could make a substantial contribution to economy and efficiency. However, the integrity of data may be suspect and the staff makes no apparent use of the report. The report is not even reviewed at Head Office, was four months behind at the time of my review and the Department did not have reasonable standards in place for such performance factors as gas consumption, tire replacement, repair costs or economic trade-in points. I have been assured by management that implementation of the recommendations directed at improving the usefulness of the maintenance report will be attempted as soon as possible.

12. CHARLOTTETOWN AREA DEVELOPMENT CORPORATION

Reporting Philosophy: This is my first comprehensive audit of a publicly owned Corporation operating in the private sector on a commercial basis. Comprehensive auditing is still in its early stages of development and public reporting on such Corporations has been a controversial subject, still hotly debated between the corporations and practitioners engaged in comprehensive auditing. On the one hand the Legislative Assembly is entitled to information concerning the public interest. On the other hand information that could be damaging to private sector interests must not be disclosed. I can therefore not report in the same detail as I customarily do for similar audits on departments and crown agencies even though all the information I required was made available. As a matter of fact the length of this report is not indicative of the efforts that have gone into the examination of this very complex operation.

Corporate Mission and Objectives: The corporate mission is to provide major economic and social improvements in the Greater Charlottetown area. The summarized objectives are to revitalize, repopulate and promote the core area and improve the

waterfront. To implement these objectives three major projects were undertaken, namely Harbourside-Phase I, Confederation Court Mall and the Queen Parkade. Substantial developments have taken place and from personal observation progress on improvements to the downtown core is evident. A formal evaluation of public perception of the development and the economic and social benefits have not been made. The construction of the Convention Centre and of a new building for the Department of Veterans Affairs will not be completed until at least a year from now. Both projects are expected to contribute substantially to economic activity. I recommend a formal evaluation of the benefits to be done sometime after completion of these two projects.

Corporate Structure: The Corporation was incorporated in 1974 under Part I of the Companies Act of P. E. I. The Province owns 75% of the shares and the City of Charlottetown and the Charlottetown Area Regional Planning Board (CARPB) own the remainder. Six directors are appointed by the Provincial Government, two by the City of Charlottetown and one by CARPB. The organizational and financial structure is extremely complex. In addition to CADC four subsidiary companies were formed and several intercompany and third party financing and leasing agreements are in place.

The Board of Directors: Most Board members are from the private sector and I observed that the affairs of the Corporation have been conducted in businesslike manner. Their extensive involvement in planning was demonstrated by more than 300 lengthy meetings, since 1976. This does not include the many meetings held by committees of the Board to deal with specific matters. Our review found the Board minutes to be well documented and they presented a good account of the information considered and decisions made. The Board provided direct input to the concept plan, approved the final designs and played a key role in the subsequent planning processes, and was fortunate to have been assisted therein

by effective and capable management. Because of the importance of a well designed long term plan I recommend, while this fortunate combination is still available, that a comprehensive long term plan be developed by the Corporation for approval by the shareholders. This plan should address future development policy and short and long term objectives with regard to the existing projects. Because the Province has a considerable stake in the Corporation and is the majority shareholder, I recommend that Government have this action initiated as soon as possible.

Property Purchases: As part of Phase I of the Harbourside Project the Corporation spent approximately $4 million on purchase of properties. In most cases the properties were appraised by independent accredited appraisers from outside the province. However, a number of properties were actually purchased at prices almost double the appraised value.

A controversial question is at stake here: Should properties needed for the public interest be purchased or expropriated? It is well known that the value of property increases as a result of redevelopment of the area in which they are located. In the private sector the property to be developed is assembled in the highest secrecy and acquired at prevailing values before development takes place. In this manner increases in property value benefit those that pay for the development. In Government, secrecy is of course impossible. Intentions are announced long before development takes place; furthermore, appropriations must be obtained resulting in public discussions in the Legislative Assembly. For protection of government and to save the taxpayers' money, the instrument of expropriation has been created. However, the way of least resistence is usually followed and expropriation is avoided. The avoidable costs to the taxpayer in this instance can be estimated at $1 million.

I suggest that expropriation be considered as a viable alternative to negotiated purchase in land acquisition for the public benefit.

Capital Construction: Over $15 million was spent on construction. A review of systems and procedures in place to control construction costs indicated that good management practices were followed and good control existed over work as it progressed and over change orders. I did not evaluate design of buildings, quality of construction and materials or the necessity of change orders. These matters can only be assessed by competent technical experts.

Leasing: Approximately fifty percent of the gross rental revenue from the Harbourside Project is derived from government for leases of the Courthouse and the Cambridge Building. Most of the retail space remained vacant for some time. This appears to justify the Board's initial reluctance to have retail space included in the original design specifications. However, according to the Corporation, DREE would only consider cost sharing if retail space was created. Recently this space was converted to office space and leased to the Federal Government on a short term basis.

Management Information System: Because in the past the emphasis was on development, a management information system was not a high priority. Now there are five separate corporations, several complex financing and leasing agreements and a great deal of financial and management data on the multi-million dollar projects completed. The General Manager recognized the need for the development of a management information system and I concurred with this. I recommended that the information needs be clearly defined. Because computerization was under consideration I further recommended that additional precautions be taken to ensure its needs were interpreted correctly and adequate controls were exercised during the development stages.

Financial Risks: The Corporation has applied some imaginative arrangements to finance its construction program. However, like many businesses, it was caught by surprise by the unexpected sharp rise in interest rates. As a result refinancing

required some government backing, i.e. $1 million till 1989. It is not clear at present whether or not this will be recovered from future earnings.

An account receivable of $600,000 from the sub-lessee of the Confederation Court Mall is currently under dispute. The Corporation and the sub-lessee both engage the same audit and legal firms. Because any losses in a settlement may have to be made good by government, I recommend that the Minister responsible protect the financial interests of government by ensuring that lawyers from the Department of Justice become involved in settlement negotiations as soon as possible.

Summary and Conclusions: That the Corporation achieved its stated objectives appears evident from the revitalization of and improvements in the downtown core. This was not achieved without considerable cost and the current financial position of some projects is tenuous. The Corporation emphasizes that it is legally a private Corporation which implies that it should be self-sufficient. Because of the substantial financial assistance required from the Province it raises the question of whether or not the Corporation will be able to meet this implied objective of self-sufficiency.

I have attempted to provide a balanced report on the more important aspects of the Corporation's activities and its current financial position. Recognizing the private nature of the Corporation's affairs referred to in the opening section I have not elaborated on the many detailed observations and recommendations made in my report to the Board of Directors.

13. PENSION FUNDS

In a number of my annual reports in the early seventies I expressed my concern that government contributions to the provincial pension funds were far from adequate, especially in view of salary escalations then taking place.

Actuarial valuations of the funds at that time indicated that the Teachers' Superannuation Fund was being rapidly depleted because few employers' contributions had been made since its inception in 1933. To strengthen the fund, government in 1975, began to make contributions equalling pensions paid in the previous year, the same approach taken to the Civil Service Superannuation Fund.

An actuarial study conducted in 1977 indicated an unfunded liability for the three funds in excess of $80 million and it became obvious that further improvements were needed. Gradually employers' contributions have been increased and now equal employee contributions. During the same period the employee contributions were increased from 6.5% to 7.5% of salaries. This rate and mandatory employer contributions are now incorporated in the Pension Acts.

The accumulative results of these actions have been that fund equities increased from $15.5 million in 1976 to $53 million in 1982.

Following are some important financial data on the funds since 1976:

	CIVIL SERVICE PENSION FUND 1977-82	TEACHERS' PENSION FUND 1977-82	M.L.A. PENSION FUND 1977-82
	(In millions of dollars)		
Employer Contributions	$10.8	$ 9.0	$ .8
Employee Contributions	13.2	10.7	.3
Interest Earned	9.9	7.6	.3
Pensions Paid	9.9	10.4	.6
Fund Balance - 1982	29.0	22.6	1.2

This year an actuarial study has been commissioned which is expected to be completed sometime in April 1983. I felt that this would be an opportune time to conduct a comprehensive audit of the pension funds. It will cover, but not be limited to areas such as the legislation, actuarial studies, planning processes, investment management, computerized information systems, administration, etc.

The response to a comprehensive audit from senior officials responsible for these funds has been positive as they too are anxious to implement any improvements that may be determined from the audit.

Much has been written in the last few years on the subject of pensions and some controversial questions are at issue, for instance:

- The unfunded liability is high. This raises a spectre of insolvency in the mind of some. However, the liabilities are calculated based on many assumptions reaching far into the future such as interest rates, inflation rates, and staff turnover. The liability does not become due in full until maybe twenty to thirty years from now and will become due only gradually over that period. This liability, although seemingly large, will be quite manageable with appropriate management.
- Funding. The last word has not been said or written on this issue. Some express the need for full, some for partial funding. Others are of the opinion that no funding at all is needed since governments are forever.
- Cost allocation. Pensions are deferred wages and their cost is part of the year in which those wages are earned. The precise cost is however difficult to determine, in part because of the many estimates that become part of calculating the actuarial liability.

In next year's report I will publish the results of my audit and deal more elaborately with the various issues at stake. In this endeavour I will be assisted by a professional actuary.

14. CASH MANAGEMENT

Cash Management is an important treasury function in any large organization. Where many relatively independent units are involved, the need

for central management becomes even more necessary. Cash management is defined as managing the short and long term flow of funds in the most economic and efficient manner on a government-wide basis.

In 1979 I conducted a brief review of cash management in the Province and defined minimum potential savings of $250,000 per year. I made it clear that cash management is a valid and important element of management and that with proper practices substantial additional savings could be had. The intent of a review is to define the problem, not to do management's work. I therefore recommended that: "In view of identified potential savings the Department of Finance design and implement a comprehensive and effective cash management system for the Province and its agencies."

However, no action was taken beyond realizing the identified potential savings. The recommended integrated cash management system is still not in place and four months ago I was advised: "The Province does not have, nor do we presently have plans to adopt any 'integrated system of cash management control', at least in the sense I understand that phrase. We regard cash as only one of the many elements to be managed I believe that the manager of a project or administrative unit should arrange the use of all the tangible and intangible resources available to him for the overall effectiveness of his operations. I have yet to be convinced that overall performance would be improved by removing this one (usually small) element of administration from line department managers and making it a responsibility of one central agency."

Because the Department of Finance and Treasury Board have failed to act on the main recommendation of my 1979 report I decided to perform a comprehensive audit of cash management on a government-wide basis. My audit indicated potential savings of $600,000, over and above the potentials that already existed at the time of my 1979 review. These potential savings are based on conservative

estimates and real potential could be as high as $1 million.

I therefore recommend that the importance of an integrated cash management system be recognized and an appropriate system be implemented.

15. DEPARTMENT OF HEALTH AND SOCIAL SERVICES - PHARMACY

Computerization: I have reviewed and assessed two computerized systems - the Dispensing System and the Inventory Control System. The Dispensing System has been in place for about six years and is operating satisfactorily. The Inventory Control System on the other hand was implemented in 1980, has had three major revisions since implementation and according to the Pharmacist is still so unreliable that the Pharmacy staff does not intend to even attempt a reconciliation of the year-end physical count to the computer inventory records at March 31, 1983.

Because of incorrect balances in the computer inventory, the system is not relied upon for re-ordering drugs or identifying dated or obsolete items in stock. The original manual system continues to be maintained for correcting the regular Drug Usage and Distribution report produced by the computer. The computerized system apparently took two man-years to develop and needed several costly revisions. Development costs and operating costs represent substantial waste unless the system is made to work.

I recommend that the Pharmacist as the manager ensure that the system is made fully operative in order to eliminate the costly manual duplication.

I recommend also that the Computer Priorities Committee investigate the cause of the system failure in light of its originally defined objectives and that it redefine its policies and procedures to prevent this typs of waste in the future.

Viability of Pharmacy: Although the Pharmacy dispenses drugs primarily to

Agencies of Government, the mark-up on drugs to recover operating costs is insufficient. A few years ago, when the costs were much lower, the Pharmacist advised me that increasing the mark-up would render him uncompetitive with the private sector. I recommend that Treasury Board make a senset review of this in-house operation.

16. DEPARTMENT OF FISHERIES: FOLLOW-UP ON IMPLEMENTATION OF RECOMMENDATIONS

Since my comprehensive audit in 1981 departmental staff and activities have been substantially reduced. The research and development functions were transferred to the Federal Department of Fisheries and Oceans and only one third of the original staff complement is remaining.

Because my specific recommendations were applicable to a much more active department, many are now less significant when considering the present operations. I have been informed that action has been taken on essentially two items: equipment control and the Fish Inspection Act. Much of the unnecessary equipment has been sold, inventory procedures have been improved and security strengthened. Substantial changes have been made in the implementation of the Fish Inspection Act to ensure the responsibilities of buyers and processors are fulfilled. Although I would agree that the detailed recommendations on planning, management information system, budgeting and program evaluation may not apply completely to the reduced operations, the underlying principles of control and effective management do and I would recommend the department implement them in this light.

17. FORESTRY DIVISION: FOLLOW-UP ON IMPLEMENTATION OF RECOMMENDATIONS

In 1981 I conducted a comprehensive audit of the Forestry Division.

Since then as a result of a government reorganization the Division was transferred from the Department of Agriculture to the newly created Department of Energy and Forestry, where it has been given a much more prominent position. This change has eliminated most of the accounting and control problems which existed at the time of my audit. From a follow-up review it became apparent that my recommendations were being appropriately dealt with.

During my review I was presented with the recently revised five year plan. I was impressed with its quality and found it to be well integrated and documented with quantified objectives.

18. MARKET DEVELOPMENT CENTRE: FOLLOW-UP ON IMPLEMENTATION OF RECOMMENDATIONS

The General Manager advised me that all recommendations have been carefully considered and that he has implemented all major ones and is still considering implementation of some minor ones. More specifically, the important function of project management has been strengthened considerably. Objectives and performance standards have been clearly defined for each project, suitable guidelines for documentation, procedures for measuring project and program effectiveness have been established. Smooth working relationships with other departments have now been established.

19. APPROPRIATIONS

My audit of appropriations included a review of the systems and procedures for the administration of the annual budget. This entailed an audit of appropriations approved by the Legislature, additional appropriations approved by Executive Council upon recommendation by Treasury Board, transfers approved by Treasury Board, and expenditures incurred by departments.

In Schedules "A" and "B" attached to this report I have compared appropriations with actual expenditures in accordance with the classifications in the 1981-82 Appropriation Act.

	APPROPRIATIONS BY ACT	INCREASES BY ORDER-IN-COUNCIL	TOTAL EXPENDITURES	UNDER EXPENDITURES
Schedule "A" Ordinary Expenditures	$351,486,200	$10,650,306	$344,761,610	$17,374,896
Schedule "B" Capital Expenditures	32,052,500	-	24,495,668	7,556,832
	$383,538,700	$10,650,306	$369,257,278	$24,931,728

The Audit Act requires me to report on additional appropriations. Details are shown in Schedule "C" attached to this report. Expenditures for the year are approved by the Appropriation Act, which is based on the Estimates presented to the Session. Schedule "D" also attached to this report lists major underexpenditures.

My audit revealed several errors in the processing of appropriation transfers. In one case only one side of the transfer was made. In several other instances the appropriations for the accounts affected were both increased instead of one being increased and another being decreased. The total amount involved was about $150,000. The errors were reported to the staff as a result of my audit. I suggest that the Treasury Board staff responsible for appropriation administration exercise better control.

20. PUBLIC ACCOUNTS

AUDITOR'S REPORT -

Section 13(1) of the Audit Act states: "the Auditor General shall

audit, in such manner as he considers necessary, the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Fund, and the assets, liabilities, revenues, expenditures, trusts and funds held by any agency of government or Crown controlled or owned corporation insofar as it is not subject to financial audit by an external auditor."

The following Auditor's Reports were submitted for publication in the Public Accounts for the year ended March 31, 1982. Following is my report for the Consolidated Fund:

> "I have examined the balance sheet of the Consolidated Fund of the Province of Prince Edward Island as at March 31, 1982 and the statements of revenue and expenditure and net debt for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances except for any limitations in scope noted in my report to the Legislative Assembly.
>
> In my opinion, except for my comments in the Public Accounts section of my report to the Legislative Assembly, these financial statements present fairly the financial position of the Consolidated Fund of Prince Edward Island as at March 31, 1982 and the results of its operations for the year then ended in accordance with the disclosed basis of accounting referred to in the basis of reporting notes to the financial statements, which basis is consistent with that of the preceding year."

In addition I have examined the consolidated financial statements which combine the financial statements of the Consolidated Fund, Crown Corporations and other Provincial Agencies. Following is my Auditor's Report:

> "I have examined the balance sheet of the Consolidated Fund, Crown Corporations and other Provincial Agencies of the Province of Prince Edward Island as at March 31, 1982 and the statement of net debt for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances except for any limitations in scope noted in my report to the Legislative Assembly.

In my opinion, except for my comments in my report to the Legislative Assembly these financial statements present fairly the financial position of the Consolidated Fund, Crown Corporations and other Provincial Agencies of Prince Edward Island as at March 31, 1982 in accordance with the disclosed basis of accounting referred to in the basis of reporting notes to the financial statements, which basis is consistent with that of the preceding year."

LIMITATIONS IN SCOPE - FEDERAL TAX SHARING

Again this year I have been unable to audit revenues of over $190 million received from the Government of Canada consisting mainly of personal and corporate income tax collected on behalf of Prince Edward Island, equalization payments, and established program financing. I cannot audit these revenues because they are based on tax records and statistics which are under control of the Federal Government. My only recourse has been to confirm the amounts that we did receive with the Federal authorities to ensure that all revenue received was in fact recorded.

AUDIT OBSERVATIONS AND COMMENTS

Following are my audit observations along with some comments. Many of these items are of substance and they should be carefully considered in conjunction with the Legislative review of the Public Accounts.

ALL FUNDS BALANCE SHEET - CROWN AGENCIES - The All Funds Balance Sheet combines the balance sheet of the Consolidated Fund with the balance sheets of a number of Crown Agencies. All but one of these agencies are listed in Schedule "B" or "C" to the Financial Administration Act. There are a number of agencies whose balance sheets are not combined and there is no clear reason for their exclusion. The Prince Edward Island Heritage Foundation, the Charlottetown Area Development Corporation, the Summerside Waterfront Development Corporation, the Prince Edward Island Energy Corporation, the Prince Edward Island Grain Elevators Corporation

and the Prince Edward Island Lotteries Commission are all excluded. I recommend that at a minimum the effect of these entities on the Province's net debt and on current account be disclosed in the Public Accounts.

DEFICITS OF GOVERNMENT AGENCIES - Section 16(f) of the Audit Act requires me to report the deficits of government agencies not covered by appropriations or any surpluses not paid into the Consolidated Fund. The following is reported for 1981/82:

GOVERNMENT AGENCY	SURPLUS/(DEFICIT) 1981/82	ACCUMULATED
P. E. I. Grain Elevators Corporation	(251,000)	(283,000)
P. E. I. Crop Insurance Agency	1,628,000	1,159,000
P. E. I. Energy Corporation - operating	(26,000)	205,000
- capital	986,000	1,342,000
P. E. I. Market Development Centre	171,000	171,000

All entities reported above have obtained approval from Executive Council to carry over their surplus or deficit.

UNDERSTATEMENT OF NET DEBT - There are non-realizeable assets, and undisclosed commitments totalling approximately $69 million which are not reflected in the Province's Net Debt.

- Non-realizeable Assets - There are several accounts listed on the balance sheet as realizeable assets which in fact are not realizeable from third parties. Moreover, two major items are in substance capital assets acquired by the Province, which in accordance with established policy should not be included as realizeable assets.
  - Loan Receivable - Farm Centre Association - Payments due on this account which stands at approximately $200,000, are being provided for each year by appropriation.

- School Unit Debentures - This is an item included as loans receivable in Schedule 2 to the balance sheet. These debentures will be paid off with grants provided for in future budgets of the Province and total approximately $28 million.
- Queen Elizabeth Hospital - The cost of construction of the hospital is shown on the balance sheet as a mortgage receivable of about $31 million. The principal and interest payments on this mortgage will be provided for from future budgets of the Province.

- Courthouse Lease - The Province has adopted a policy of treating capital assets as expenditures of the year in which they were purchased. The Courthouse lease is in substance a purchase and the present value of the lease payment should be treated as a capital expenditure. If treated properly a lease obligation of $3.2 million would be reported and the net debt increased by the same amount.
- Guaranteed Debt - The guaranteed debt schedule in the Public Accounts continues to show a guaranteed debt incurred by schools now incorporated into the consolidated units. Annual payments of principal and interest are made from regular appropriation. This guaranteed debt is a real liability and should be recorded as such. Hence, liabilities and net debt are understated by $3.5 million.

The combined effect of the above noted items is an understatement of Net Debt by approximately $69 million. The combined Net Debt of the Province presently stated as $119 million should be stated as $188 million.

DOUBLE BUDGETING - The estimates and public accounts have always contained expenditures that were budgeted under more than one heading. Unless these are eliminated expenditures and revenues are overstated to the extent that double

or triple budgeting occurs, creating the impression that our level of expenditures is much higher than it really is. Double budgeting usually arises as a result of the reallocation of costs. In many cases, cost allocation is proper and justified and in itself is not a problem. However, for purposes of published financial statements, revenue and expenses should only be reported once. Some years ago Treasury Board expressed its intention to eliminate double budgeting, however, this has not been done.

MISCELLANEOUS ACCOUNTS RECEIVABLE - A highways account for $67,000 and an account receivable of $20,000 from the Rehabilitation Centre have been outstanding since 1980. These accounts should either be collected or written off. Provincial revenue and accounts receivable are understated by $63,000 due to the omission of a year-end accrual.

ACCRUED LIABILITIES - Teachers' salaries have been recorded on a cash basis, Civil Service salaries have been accrued. The adopted accounting policy is to follow a modified accrual basis. This at least requires consistency in recording similar items. Unrecorded accrued teachers' salaries at March 31, 1982 were $536,000.

NET FUNDED DEBT - CANADA PENSION PLAN DEBENTURES - These debentures are callable on six months notice by the Federal Minister of Finance on a prorated basis of total outstanding debentures subject to a deemed shortage in Canada Pension Plan Fund for meeting benefits payable.

GUARANTEED DEBT - The Province has guaranteed a loan of $1 million for the Hog Commodity Marketing Board. There appears to be considerable doubt whether this commodity board will be able to meet its obligations. An appropriate provision should be made to account for this potential loss.

GENERAL - Notwithstanding the above headings and comments there are other sections of this report which apply to specific aspects of the Public Accounts.

21. FUNDED AND UNFUNDED DEBT

To provide a better understanding of the funded and unfunded debt and net debt structure of the Province I have included schedules along with definitions of the terminology being used. For convenience, wherever the terminology is used in the schedules cross references are made.

1. Gross Funded Debt: This is the long term debt for which redemption provisions are made by means of Sinking Funds.
2. Sinking Funds: These are composed of accumulated savings provided from annual budget allocations plus interest earned on those savings. These funds are used to repay the debts as they mature.
3. Net Funded Debt: This is the gross funded debt less the sinking funds.
4. Net Debt: This represents the difference between total liabilities and total realizeable assets on the Consolidated Fund balance sheet.
5. Combined Net Debt: This is the aggregate of the net debt of the Consolidated Fund and the net debts of Crown Corporations and other provincial agencies.
6. Combined Net Debt Restated: This is the combined net debt adjusted for assets repayable from future tax revenues.
7. Unfunded Debt: This is the long term loans for which no Sinking Fund provisions are made.

SCHEDULE OF CHANGES IN GROSS FUNDED DEBT (1)

FOR THE YEAR ENDED MARCH 31, 1982

GROSS FUNDED DEBT, MARCH 31, 1981(1)		$236,088,000
LESS:		
1968 issue: Annual payment on principal	70,000	
1961 issue: Issue matured	2,300,000	
1971 issue: Issue matured	2,000,000	4,370,000
		231,718,000
PLUS:		
20 years Canada Pension Plan Interest rate 15.56% (average)	11,504,000	
20 years - April 23, 2001, 13 7/8%	20,000,000	
20 years - December 15, 2001, 16 1/4%	15,000,000	46,504,000
GROSS FUNDED DEBT, MARCH 31, 1982(1)		$278,222,000

COMPARATIVE SCHEDULE OF FUNDED DEBT

MARCH 31, 1982 and 1981

GROSS FUNDED DEBT (1)	1982	1981
Financed by: - debenture issues	$191,553,000	$160,923,000
- Canada Pension Plan loans	86,669,000	75,165,000
GROSS FUNDED DEBT (1)	$278,222,000	$236,088,000
SINKING FUNDS (2)		
Provision for redemption of debentures	$ 60,797,000	$ 54,476,000
Provision for redemption of Canada Pension Plan loans	24,250,000	19,408,000
Total Provisions	85,047,000	73,884,000
NET FUNDED DEBT (3)	$193,175,000	$162,204,000

COMPARATIVE SCHEDULE OF COMBINED NET DEBT

MARCH 31, 1982 and 1981

	1982	1981
Net Debt - Consolidated Fund (4)	$102,984,000	$103,829,000
Net Debt - Crown Corporations and other Agencies	15,745,000	17,526,000
COMBINED NET DEBT (5)	$118,729,000	$121,355,000

COMPARATIVE SCHEDULE OF COMBINED NET DEBT RESTATED

MARCH 31, 1982 and 1981

	1982	1981
Combined Net Debt per Public Accounts	$118,729,000	$121,355,000
Add: Non-realizeable loans receivable	62,859,000	55,172,000
Courthouse lease obligation	3,200,000	3,200,000
Guaranteed Debt - School Units	3,500,000	3,500,000
NET DEBT RESTATED (6)	$188,288,000	$183,227,000

COMPARATIVE SCHEDULE OF UNFUNDED DEBT (7)

MARCH 31, 1982 and 1981

	1982	1981
Loans from Alberta Heritage Fund	$45,000,000	$20,000,000
Loans from Federal Government	7,000,000	7,000,000
TOTAL UNFUNDED DEBT	$52,000,000	$27,000,000

As at March 31, 1982 a surplus of $500,000 arising from overprovision for retired debts, will be retained to assist in retiring unfunded debt.

COMPARATIVE STATISTICS

MARCH 31, 1982 and 1981

	1982	1981
RESTATED NET DEBT PER CAPITA	$1,530	$1,500
ANNUAL INTEREST COST OF NET DEBT - Total	$33 million	$25 million
ANNUAL INTEREST COST OF NET DEBT - Per Capita	$275	$208

22. COMPUTER SERVICES DIVISION: FOLLOW-UP ON IMPLEMENTATION OF RECOMMENDATIONS

The Director advised me that most of the recommendations in last year's Computer Environment Review have been addressed. Action has been taken to limit the ability of system development staff to change production programs. File

back-up has been improved considerably. Recommendations dealing with location, limited access, intrusion alarms, fire and water hazards will be implemented as part of the relocation to the Sullivan Building. Because of the small number of staff it was not deemed feasible to separate the maintenance function from operations. A documented disaster recovery plan will be deferred until other security measures are in place and fully operational.

23. SALES TAX

Unremitted sales tax is public money held in trust by the businessmen who collect it. Sales tax is paid in good faith by the general public to Government and should not be used to finance the businesses of the collectors. If Government wishes to assist those in financial difficulty, it has other more appropriate means, such as loans and guarantees available.

In view of the growing amount of seriously past due accounts - over $500,000 was more than six months past due at March 31, 1982 - I again recommend strong and timely collection. Accounts receivable are taxes that have been recorded as revenue. Since much of it appears uncollectible, an appropriate allowance for bad debts should be recorded to prevent misstatement of the surplus or deficit on current account for the year.

24. PAYROLLS

In May 1981 Treasury Board issued a policy that no new term employees were to be hired for more than six months continuously or cumulatively in any fiscal year. The first test of this policy began April 1, 1982. At the end of September 1982 all term employees received a blanket extension of two months. Treasury Board continued to monitor the program closely but a large majority

of the term employees so far have received extensions on an individual basis or temporary exemptions from the policy on a group basis. As a result the new policy has had a minimal impact on the casual payroll costs.

Long term temporary employees who had accumulated a full year of continuous employment at the time the policy was issued are not covered by the policy. These employees are usually transferred to the salary payroll to facilitate the administration of certain benefits they are entitled to. The salary payroll is not subject to the checking mechanism built into the casual payroll. Currently there are more than 200 long term temporary employees on the salary payroll.

In my opinion, if the purpose of the Treasury Board policy was to minimize temporary payroll costs then it has failed.

25. LAND DEVELOPMENT CORPORATION

Parks Property: Last year I reported an account receivable arising from a land deal with the Federal Government. The land was originally to be sold for $850,000. Accumulated interest receivable on the deal now stands at approximately $385,000. Because conveyance of the mineral rights is being disputed the entire sale may be in jeopardy, which could result in a substantial loss to the Corporation. I recommended last year that the Corporation and Cabinet take the necessary steps to have this matter resolved. However, no apparent action has been taken.

Questionable Practices: Again this year my audit revealed some questionable practices in connection with eligibility assessments and asset valuations for L.D.C. clients. In view of the substantial increases in activity over the past two years I recommend that management review and tighten its controls and supervision.

The Land Development Corporation and the P. E. I. Lending Authority

are both substantially involved in activities related to the farming community. There appears to be sufficient commonality in their purposes and activities to warrant reviewing the feasibility of combining the two corporations. In my opinion this could lead to savings in operating costs.

I recommend that Cabinet explore the potential for consolidation of the P. E. I. Lending Authority and the Land Development Corporation.

26. P. E. I. HOUSING CORPORATION

Hillsborough Development: It is now quite obvious that this project is a white elephant. No lots were sold in 1981 and 1982 even though new housing starts in 1982 on a province-wide basis were up by 20% over 1981. I am sure that the funds invested - $2.8 million - could be put to better use. In my previous report I recommended that "the Corporation dispose of the project as soon as possible or request Cabinet approval of a restated objective with a simultaneous request for a substantial appropriation sufficient to cover a write down to the realizeable value of the project." The recommendation has not been implemented and this year again $300,000 was paid for interest on investment. I recommend that Treasury Board appropriate sufficient funds to write down the net book value of the asset to its realizeable value. I further recommend that Treasury Board face the reality of the situation, recognize the inherent losses and make a sunset review of this project to determine its disposition.

Unauthorized Expenditures: Reserves of $140,000 created to pay for future major repairs to government owned senior citizens homes continue to be spent for a different purpose. The expenditures are in contravention of the Financial Administration Act which requires Legislative approval for all expenditures, that appropriations be used for the purpose for which they were granted and that

appropriations not spent at the end of any fiscal year must lapse.

Travel: Over the last two years an employee was paid $17,000 in travel expenses to travel from Charlottetown to O'Leary. The cost of the employee's travel time is at least as much. Relocation could have prevented this waste of $30,000. The matter has now been resolved and the employee has been relocated to Souris.

Total direct travel costs for the Corporation in 1981/82 were $130,000. My audit revealed that some individual managers do make attempts to schedule field work in such a manner as to minimize travel time and cost. However, in view of the extent of direct and indirect travel costs I recommend that the Corporation review its travel needs and determine whether potential for savings exist.

27. PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION

Gross sales in 1981-82 were $5 million higher than the previous year, due to an increase in the Health Tax rate from ten percent to twenty-five percent and an increase in prices. The tax increase yielded $3.5 million additional revenue to the Treasury but net profit declined by $.5 million, due to a decrease in sales volume and a significant increase in operating expenses. I do not know whether the decrease in sales volume is due to lower consumption or to increased competition from moonshiners!

Operating expenses for the year rose sharply - 22%. Salaries and employee benefits account for approximately 50% of the increase and a number of other costs rose sharply as well, some by as much as forty to seventy-five percent.

Liquor sales is a Provincial monopoly and the Commission does not have a bottom line in the commercial sense. Restraints therefore will have to be self imposed and I recommend that the Commission examine its operating costs to adjust to the restraints of the time and that it establish performance standards for each major cost category as a percentage of net sales.

As part of my comprehensive audit of the Services Division of the Department of Transportation and Public Works it was noted that the Commission purchases property insurance independently rather than participating in the general government policies. A cursory review of the rates indicated potential savings of between $15,000 and $20,000. I recommend once again that Treasury Board proceed with a review of insurance for all Crown Corporations and that it define policies aimed at attaining the kind of savings reported above.

28. GRAIN ELEVATORS CORPORATION

Losses: Some years ago Executive Council in accordance with the Financial Administration Act, decided to allow the Corporation to retain its profits to offset future losses. The year ended July 31, 1982 showed a loss of $250,000, increasing the accumulated deficit to $280,000. The high losses this year are the result primarily of a decline in grain prices since the 1981 harvest, and the Corporation could not compete with western grain. The result was a dramatic decline in sales. In an attempt to improve the sales picture, the Corporation has on a few occasions sold grain to customers with a poor credit rating, and thereby incurred collection losses.

Hedging: It is quite customary when dealing in commodities to use hedging as a protection against a drop in prices. The Corporation did not use this instrument, otherwise it could have curtailed its losses. Hedging can easily degenerate to speculation and should therefore be done in consultation with a reputable broker, familiar with the grain futures market.

Fraud: In 1982 the General Manager of the Corporation was convicted of theft. My office participated in the RCMP investigation and conducted a count of grain on hand at the three elevators. This was a time consuming and costly effort,

because of the large inventories and the geographical dispersion of the elevators. The court ordered the former General Manager to pay restitution of $18,400 by July 1983.

Controls: In order to compete successfully the manager must have substantial leeway. Due to the nature of the business many possibilities exist for fraudulent abuses. This makes it a position largely depending on trust. Accounting controls alone are not sufficient to prevent abuses and strong emphasis therefore must be placed on supplementary and compensating administrative controls such as maintaining a permanent record of posted prices, establishing parameters for day to day actions, within which the managers must remain, reports to the Board on deviations from parameters, periodic review of documents by one or more members of the Board.

Recommendations: I recommend that the Board of Directors:

- Establish and enforce a firm policy for credit investigation.
- Establish and review individual credit limits for new customers, especially large accounts.
- Establish appropriate hedging procedures to prevent losses from price fluctuations along with controls to prevent speculative abuses.
- Strengthen the administrative controls.

29. CLAIMS UNDER COST SHARING AGREEMENTS

Claims administration involves preparation of claims, interpretation of agreements and efficient processing and is a relatively specialized function with which many administrators are not too familiar. Many years ago the responsibility for processing claims under some major agreements including the Development Plan was centralized in the Department of Finance. The employee in charge has handled these claims very competently with additional staff of one or two as required over

the years. Claims work in the Department of Finance is now diminishing with the Plan coming to an end in 1984. At present the employee in charge is working alone but no trained substitute is available when this employee is absent.

I have in past reports often written about delays in the claims processing and the resulting substantial interest losses. A simple solution to the above problems appears to be centralization of claims preparation for all claims in the Department of Finance. Interest earnings alone would warrant an extra position as is demonstrated by the following examples:

- Legal Aid Agreement - Department of Justice: A claim for $128,000 for the 1981-82 fiscal year was not submitted until October 1982 and has not been paid as at the date of writing this report. Resulting interest losses can be estimated at close to $20,000.
- Highways Strengthening Improvement Agreement - Department of Transportation: In 1982-83 to date four claims totalling $1.1 million have been submitted under a four year agreement with the Federal Government to cost share 50% in the approved cost of upgrading sections of primary highways. Payment by bank transfer rather than by mail would produce substantial interest earnings. This mode of payment has been arranged under most other agreements.
- Canada Assistance Plan Claims - Department of Health and Social Services: Final claims for the last four years have not yet been processed. This is a serious situation and can prove very costly since it is not known if the proper amount of Federal dollars has been claimed by way of advance claims until the final claimable amounts are calculated. The last advance claim submitted for 1978 and 1979 for $95,000 and $164,000 respectively were submitted in May 1982. This delay alone has resulted in interest losses of approximately $100,000 in addition to the $250,000 loss reported last year. In view of these losses, the lack of action by Departmental management cannot be excused.

- Vocational Rehabilitation Claim - Department of Health and Social Services: The Department delayed the submission of claims and made insufficient efforts to press for prompt settlement, resulting in interest losses for 1981-82 in excess of $15,000.

In view of the potential savings I recommend that Treasury Board promptly expedite the centralization of claims administration in the Department of Finance with provision of adequate staffing.

I further recommend that the Board direct that all provincial representatives as part of their negotiations of Federal/Provincial cost sharing agreements make every effort to negotiate provisions for submitting advance claims and for payment by bank transfer.

Ordinary Expenditures

	Appropriations				Comparative Expenditures		Under Expenditures
		Special Warrants					
	Per The Appropriation Act 1981-82	Per The Supplementary Appropriation Act 1981-82	Increases by Order-In-Council	Transfers From 95-04-01-S	1982	1981	1982
Agriculture and Forestry	16,599,400	1,099,699	-	155,500	14,562,502	17,717,771	3,292,097
Land Development Corporation	907,200	-	9,500	8,000	924,692	917,791	8
P.E.I. Grain Elevators Corporation	635,100	-	-	-	-	-	635,100
Community Affairs	14,447,000	24,000	-	66,200	13,032,733	11,712,014	1,504,467
Land Use Commission	85,000	3,500	-	(700)	87,134	77,390	666
Rentalsman	15,000	1,400	-	600	16,998	56,362	2
P.E.I. Housing Corporation	2,601,700	-	-	33,300	1,795,079	2,210,568	839,921
Policy and Priorities Board	513,100	-	-	2,800	387,924	311,452	127,976
General Education	4,675,000	-	-	76,800	4,449,879	3,572,808	301,921
Grants to Regional School Units	59,282,900	-	-	1,297,300	60,349,639	55,139,563	230,561
Post-Secondary Education	15,273,200	21,000	-	-	15,294,097	14,468,390	103
School Construction	2,500,000	-	-	-	2,026,913	1,840,937	473,087
Vocational High Schools	3,350,900	-	-	-	3,122,500	4,154,775	228,400

Ordinary Expenditures

Appropriations

	Per The Appropriation Act 1981-82	Special Warrants: Per The Supplementary Appropriation Act 1981-82	Special Warrants: Increases by Order-In-Council	Special Warrants: Transfers From 95-04-01-S	Comparative Expenditures 1982	Comparative Expenditures 1981	Under Expenditures 1982
Executive Council	671,900	121,888	50,000	7,700	851,451	655,897	37
Finance	4,061,800	25,524	-	71,500	4,105,745	3,665,676	53,079
Fisheries	3,531,600	-	-	30,400	2,491,651	2,570,673	1,070,349
Health and Social Services							
- Health Branch	15,370,400	-	-	349,200	15,370,936	13,959,444	348,664
- Social Services Branch	37,444,700	551,800	-	408,600	38,089,560	33,140,501	315,540
- Addiction Services	2,491,500	42,461	-	67,700	2,471,246	2,034,384	130,415
Hospital Services Commission	40,215,000	-	1,481,284	22,300	41,718,584	35,886,413	-
Health Services Commission	13,148,000	-	389,265	26,700	13,563,965	11,597,302	-
Tourism, Industry and Eenrgy	11,341,300	-	-	47,300	4,753,288	5,587,805	6,635,312
Market Development Centre	1,288,100	-	-	11,300	1,129,248	1,184,019	170,152
P.E.I. Lending Authority	783,900	-	106,100	16,200	906,106	730,526	94
Industrial Enterprises Incorporated	3,430,900	-	-	(4,400)	3,156,355	5,774,449	270,145

Ordinary Expenditures

	Appropriations						
		Special Warrants					
	Per The Appropriation Act 1981-82	Per The Supplementary Appropriation Act 1981-82	Increases by Order-In-Council	Transfers From 95-04-01-S	Comparative 1982	Expenditures 1981	Under Expenditures 1982
P.E.I. Energy Corporation	1,075,700	-	200,000	900	1,178,028	320,019	98,572
Justice and Attorney General	6,668,100	439,550	92,810	91,600	7,202,991	6,108,990	89,069
Labour	5,539,600	-	-	17,400	5,346,659	4,700,952	210,341
Legislature	943,100	-	-	9,200	913,928	837,281	38,372
Highways and Public Works	30,686,800	3,282,365	233,000	449,800	34,487,239	30,094,283	164,726
Other Current Expenditures							
- Auditor General	568,800	-	-	11,600	562,320	473,602	18,080
- Civil Service Commission	686,800	-	-	13,800	698,984	752,791	1,616
- General Government	6,855,800	1,290,659	-	(3,293,500)	4,800,665	3,756,823	52,294
- Treasury Board	496,900	-	-	4,900	428,070	410,621	73,730
- Institute of Man and Resources	-	-	-	-	-	225,000	-
- Council of Maritime Premiers	640,000	-	-	-	640,000	592,200	-

Ordinary Expenditures

	Appropriations						
		Special Warrants					
	Per The Appropriation Act 1981-82	Per The Supplementary Appropriation Act 1981-82	Increases by-Order In-Council	Transfers From 95-04-01-S	Comparative Expenditures 1982	1981	Under Expenditures 1982
Other Current Expenditures (Continued)							
- Georgetown Shipyards Inc.	-	-	-	-	-	218,810	-
Debt Charges	42,660,000	432,000	752,501	-	43,844,501	34,362,088	-
	$351,486,200	$7,335,846	$3,314,460	$ 0	$344,761,610	$311,820,370	$17,374,896

Capital Expenditures

Appropriations

	Per The Appropriation Act 1981-82	Comparative Expenditures 1982	1981	Under Expenditures 1982
Highways and Public Works	31,992,500	24,495,668	29,914,360	7,496,832
Community Affairs	60,000	-	5,277	60,000
Agriculture and Forestry	-	-	1,944	-
	$32,052,500	$24,495,668	$29,921,581	$7,556,832

ORDER-IN COUNCIL	LIST OF INCREASES TO APPROPRIATIONS	SCHEDULE "C" PAGE 1 OF 7
	DEPARTMENT OF AGRICULTURE AND FORESTRY	
	FORESTRY - ENFOR FUELWOOD PROJECT	
670/81	Wages and supplies costs involved in federally funded project.	10,000
	FORESTRY - DISADVANTAGED YOUTH PROGRAM	
551/81	Salaries - Costs involved in federally funded job creation project.	129,770
551/81	Materials and Supplies - Costs involved in federally funded job creation project.	36,848
	FORESTRY - WINTER PROJECTS	
1128/81	Salaries - costs involved in federally funded job creation and training project.	199,000
1128/81	Travel - costs involved in federally funded job creation and training project.	10,000
1128/81	Materials and Supplies - costs involved in federally funded job creation and training project.	89,000
	MANAGEMENT SERVICES - ADDITIONAL GRANTS	
391/81	Hog Stabilization Fund	43,534
781/81	Hog Stabilization Fund	293,556
94/82	Hog Stabilization Fund	179,391
94/82	Hog Stabilization Fund	35,000
	VETERINARY AND DAIRY BRANCH - SWINE INSPECTION PROGRAM	
497/81	Salaries - costs of swine inspection program.	45,800
497/81	Travel - costs of swine inspection program.	7,800
	VETERINARY AND DAIRY BRANCH - DEAD STOCK PICKUP SERVICE	
558/81	Grants for the disposal of dead animals.	20,000
	Total	$1,099,699
	LAND DEVELOPMENT CORPORATION	
132/83	Debt Interest - additional costs.	9,500
	Total	$ 9,500
	DEPARTMENT OF COMMUNITY AFFAIRS	
	BUILDING AND DEVELOPMENT SERVICES	
916/81	Derelict cars and Dilapidated Buildings Program - additional costs.	24,000
	Total	$ 24,000

LIST OF INCREASES TO APPROPRIATIONS

L A N D U S E C O M M I S S I O N		
	ADMINISTRATION - ADDITIONAL COSTS	
119/82	Administration	400
119/82	Materials and Supplies	100
119/82	Salaries	2,100
119/82	Travel	900
	Total	$ 3,500
R E N T A L S M A N		
1131/81	Salaries - Additional Costs	1,400
	Total	$ 1,400
D E P A R T M E N T O F E D U C A T I O N		
	POST-SECONDARY EDUCATION	
85/82	Student Aid - additional bursary costs.	21,000
	Total	$ 21,000
E X E C U T I V E C O U N C I L		
	ADMINISTRATION	
39/82	Salaries - additional costs.	19,843
39/82	Equipment - automobile purchase.	14,080
	ELECTIONS	
616/81	3rd Kings By-election - additional costs.	22,000
740/81	3rd Kings By-election - additional costs.	7,000
1203/81	2nd Kings Enumeration - contract services.	7,500
	INTERGOVERNMENTAL AFFAIRS	
459/81	Constitutional Review - provincial share of national advertising campaign.	6,115
39/82	Salaries - additional costs.	20,350
	COMMISSION OF INQUIRY INTO THE COSTS OF ELECTRIC POWER	
39/82	Administration - start-up costs.	2,000
39/82	Materials and Supplies - start-up costs.	2,000
333/82	Materials and Supplies - additional costs.	350
39/82	Salaries - start-up costs.	10,000
333/82	Salaries - additional costs.	3,292
39/82	Professional Services - start-up costs.	10,000
333/82	Professional Services - additional costs.	41,639
39/82	Travel - start-up costs.	1,000
333/82	Travel - additional costs.	4,719
	Total	$ 171,888

LIST OF INCREASES TO APPROPRIATIONS

D E P A R T M E N T O F F I N A N C E		
	ADMINISTRATION	
973/81	Travel, Out-of-Province - additional costs.	5,000
	FEDERAL-PROVINCIAL FISCAL RELATIONS	
973/81	Travel, Out-of-Province - additional costs.	19,000
	REVENUE DIVISION - ADMINISTRATION	
550/81	Write-off of accounts receivable under Real Property Tax Act.	1,524
	Total	$ 25,524
D E P A R T M E N T O F H E A L T H A N D S O C I A L S E R V I C E S - S O C I A L S E R V I C E S B R A N C H		
	SPECIAL SERVICES DIVISION - FEDERAL WELFARE INFORMATION PROJECT	
974/81	Salaries - costs of federally funded program.	21,900
974/81	Professional Services - costs of federally funded program.	27,000
974/81	Travel - costs of federally funded program.	1,100
	FIELD SERVICES DIVISION - ADDITIONAL COSTS	
125/82	Cash and Material Benefits - O'Leary Region.	40,500
125/82	Cash and Material Benefits - Summerside Region.	52,600
125/82	Cash and Material Benefits - Charlottetown Region.	136,000
125/82	Cash and Material Benefits - Montague Region.	28,300
125/82	Cash and Material Benefits - Souris Region.	29,200
	AGING DIVISION - ADDITIONAL COSTS	
125/82	Salaries - Summerset Manor.	25,000
125/82	Salaries - Beach Grove.	75,000
116/82	Grants - Sacred Heart Home - subsidized patient care.	18,300
116/82	Grants - Garden of the Gulf Nursing Home - subsidized patient care.	75,400
116/82	Grants - Prince County Nursing Home Ltd. - subsidized patient care.	21,500
	Total	$ 551,800
H O S P I T A L S E R V I C E S C O M M I S S I O N		
824/82	Grants - additional costs.	1,481,284
	Total	$1,481,284

LIST OF INCREASES TO APPROPRIATIONS

H E A L T H S E R V I C E S C O M M I S S I O N		
705/82	Administration - additional costs.	389,265
	Total	$ 389,265
A D D I C T I O N S E R V I C E S		
	QUEENS COUNTY DETOX	
975/81	Salaries - additional costs on federally funded project.	23,378
975/81	Professional Services - additional costs on federally funded project.	19,083
	Total	$ 42,461
P. E. I. L E N D I N G A U T H O R I T Y		
64/83	Reserve for losses on Capital Loans.	106,100
	Total	$ 106,100
P. E. I. E N E R G Y C O R P O R A T I O N		
	GENERAL	
336/82	Operations - energy from waste project.	200,000
	Total	$ 200,000
D E P A R T M E N T O F J U S T I C E A N D A T T O R N E Y G E N E R A L		
	ADMINISTRATION - GENERAL	
127/82	Professional Services - additional costs for legal cases.	12,000
132/82	Professional Services - additional costs for legal cases.	20,700
	LAW ENFORCEMENT	
335/82	Professional Services - R.C.M.P. - additional costs.	92,810
	JUDICIAL	
1205/81	Administration - additional costs	10,000
1130/81	Professional Services - additional costs for legal cases.	65,000
1205/81	Materials and Supplies - additional costs.	10,000

LIST OF INCREASES TO APPROPRIATIONS

DEPARTMENT OF JUSTICE AND ATTORNEY GENERAL (CONTINUED)

	CORRECTIONS	
127/82	Salaries - Sleepy Hollow Correctional Centre - additional costs.	180,000
127/82	Salaries - Prince County Jail - additional costs.	32,000
132/82	Salaries - Kings County Jail - additional costs.	6,500
977/81	Materials and Supplies - Princy County Jail - additional costs.	25,000
107/82	Materials and Supplies - Prince County Jail - additional costs.	21,000
132/82	Materials and Supplies - Kings County Jail - additional costs.	1,000
	PROSECUTIONS	
127/82	Professional Services - additional costs for legal cases.	10,000
1205/81	Professional Services - additional costs for legal cases.	20,000
	CORPORATIONS	
977/81	Grants - Credit Union League - additional costs.	17,600
977/81	Grants - Co-operative Union - additional costs.	7,000
	HUMAN RIGHTS COMMISSION	
118/82	Grants - additional costs.	1,750
	Total	$ 532,360

DEPARTMENT OF HIGHWAYS AND PUBLIC WORKS

	GENERAL ADMINISTRATION	
22/82	Professional Services - Legal Settlement.	30,000
	HIGHWAYS MAINTENANCE BRANCH - ADDITIONAL COSTS	
126/82	Materials and Supplies - Snow and Ice Control.	50,000
126/82	Materials and Supplies - Sand and Salt.	207,400
126/82	Contract Services - Snow and Ice Control.	260,000
133/82	Contract Services - Snow and Ice Control.	1,000,000
1204/81	Wages - Sand and Salt.	321,500
1204/81	Materials and Supplies - Sand and Salt.	39,700
	MECHANICAL BRANCH - GARAGE OPERATIONS	
117/82	Materials and Supplies - additional direct costs.	530,000
117/82	Materials and Supplies - additional indirect costs.	53,500
117/82	Salaries and Wages - additional direct costs.	183,000
117/82	Salaries and Wages - additional indirect costs.	30,000

LIST OF INCREASES TO APPROPRIATIONS

DEPARTMENT OF HIGHWAYS AND PUBLIC WORKS

(CONTINUED)

	MECHANICAL BRANCH - GARAGE OPERATIONS (CONTINUED)	
1152/81	Materials and Supplies - additional direct costs.	365,000
1152/81	Materials and Supplies - additional indirect costs.	39,000
1152/81	Travel - additional direct costs.	3,000
1152/81	Equipment - purchase of used grader.	22,000
334/82	Materials and Supplies - additional direct costs.	139,900
334/82	Salaries - additional direct costs.	93,100
	BUILDINGS BRANCH	
807/81	Maintenance - P.E.I. Hospital, essential repairs.	20,500
807/81	Maintenance - Charlottetown Hospital, essential repairs.	5,000
	PLANNING BRANCH - ADDITIONAL COSTS	
976/81	Salaries - Parks Operation - Eastern Region.	36,165
976/81	Salaries - Parks Operation - Western Region.	2,100
976/81	Administration - Parks Operation - Eastern Region.	375
976/81	Administration - Parks Operation - Western Region.	200
976/81	Materials and Supplies - Parks Operation - Eastern Region.	5,625
976/81	Materials and Supplies - Parks Operation - Western Region.	600
976/81	Professional Services - Parks Operations - Eastern Region.	1,100
976/81	Travel - Parks Operation - Western Region.	200
38/82	Materials and Supplies - Transportation Division - Island Transit.	15,000
1129/81	Grants - Transportation Division - costs of federally funded Urban Transportation Assistance Program.	45,400
	HIGHWAY SAFETY BRANCH	
86/82	Administration - additional costs.	2,000
86/82	Registration and Licensing - materials and supplies - additional costs.	14,000
	Total	$3,515,365

OTHER CURRENT EXPENDITURES

	GENERAL GOVERNMENT	
978/81	Employee Benefits - additional costs.	1,136,700
717/81	Grants - in lieu of property tax.	6,473
917/81	Grants - in lieu of property tax.	17,191
617/81	Grants - in lieu of property tax.	9,143

ORDER-IN COUNCIL

LIST OF INCREASES TO APPROPRIATIONS

OTHER CURRENT EXPENDITURES (CONTINUED)

GENERAL GOVERNEMNT (CONTINUED)

128/82	Grants - Charlottetown Driving Park.	99,886
535/81	Grants - Miscellaneous.	12,666
1006/81	Grants - Miscellaneous.	3,100
1088/81	Grants - Miscellaneous.	3,500
1151/81	Grants - Miscellaneous.	2,000
	Total	$1,290,659

DEBT CHARGES - ADDITIONAL COSTS

129/82	Interest.	241,000
706/82	Interest.	699,476
129/82	Sinking Fund Provision.	136,000
706/82	Sinking Fund Provision.	51,084
129/82	Amortization of Bond Discount.	55,000
706/82	Amortization of Bond Discount.	1,941
	Total	$1,184,501

List of Some Estimates Not Fully Spent - By Division

	Estimates	Transfers	Additional Appropriations	Not Spent (Over $50,000)
Department of Agriculture and Forestry	$ 2,082,600	$ 643,285	$ 551,480	$ 194,906
Management Services	6,661,000	(851,700)	-	2,156,787
Field Services	3,282,100	130,900	474,618	831,876
Forestry	635,100	-	-	635,100
P. E.I. Grain Elevators Corporation				
Department of Community Affairs	60,000	-	-	60,000
Capital	1,997,600	(82,620)	-	100,298
Community Resource	2,721,000	-	-	1,183,525
Community Revitalization	1,137,300	(12,200)	-	72,395
Environmental and Technical Services	580,700	17,115	-	101,290
Fish and Wildlife	2,601,700	33,300	-	839,921
P. E.I. Housing Corporation				
Policy and Priorities Board	252,400	10,800	-	55,797
Administration	260,700	(124,620)	-	71,783
Planning and Research Fund				
Department of Education	1,405,000	27,611	-	197,268
Administration	59,282,900	1,297,300	-	230,561
School Units Foundation Program	2,500,000	-	-	473,087
School Construction	3,350,900	-	-	228,400
Vocational Programming				
Department of Fisheries	335,800	5,700	-	75,597
Resource Harvesting	802,500	51,900	-	155,998
Aquaculture	585,200	(146,495)	-	102,478
Economic Planning and Statistics	1,009,100	(169,900)	-	310,994
Product Handling	293,500	181,800	-	383,400
Processing and Quality Control				

List of Some Estimates Not Fully Spent - By Division

	Estimates	Transfers	Additional Appropriations	Not Spent (Over $50,000)
Department of Health and Social Services	$ 2,704,700	$ 161,100	$ -	$ 115,184
Sanatorium	379,500	(118,100)	-	88,972
Resource and Evaluation - Health Promotion	24,144,700	(52,929)	286,600	154,691
Field Services	9,677,900	468,750	215,200	64,142
Aging	559,400	11,345	-	73,217
Addiction Services - Kings County				
Department of Tourism, Industry and Energy	530,700	(84,900)	-	108,386
Program Support	3,808,100	(1,573,900)	-	100,237
Tourism Branch	3,420,900	(688,700)	-	1,149,817
Industry Branch	3,581,600	4,400	-	2,886,472
Energy and Mineral Branch	-	2,390,400	-	2,390,400
Sequestrations	1,288,100	11,300	-	170,152
Market Development Centre	3,430,900	(4,400)	-	270,145
Industrial Enterprises Incorporated	1,075,700	900	200,000	98,572
P. E. I. Energy Corporation				
Department of Labour	5,539,600	17,400	-	174,403
Manpower Resources				
Department of Highways and Public Works				
Capital - by Section	1,000,000	-	-	567,923
Bridges	600,000	-	-	113,136
Culverts	14,000,000	-	-	385,201
Provincial Paving	4,790,000	-	-	1,040,796
Plan Paving	200,000	-	-	108,305
Subdivisions	5,000,000	(264,000)	-	2,796,492
Highway Reconstruction				

List of Some Estimates Not Fully Spent - By Division

	Estimates	Transfers	Additional Appropriations	Not Spent (Over $50,000)
Department of Highways and Public Works				
Capital - by Section (Continued)				
Garage Equipment	$ 207,000	$ 264,000	$ -	$ 55,742
Mill River	1,818,200	(86,675)	-	1,689,870
Information Centre - Cavendish	200,000	-	-	200,000
Shaw and Sullivan Buildings	37,000	39,500	-	76,500
Old Law Courts Building	1,500,000	-	-	203,591
Wood Heat Conversion	200,000	(144,500)	-	52,369
Forestry Facilities - Beach Grove	110,500	(52,000)	-	58,500
Office Renovations - Agriculture	50,000	-	-	50,000
Ordinary				
Mechanical Branch	4,531,000	99,792	1,458,500	113,685
Other Current Expenditures				
General Government	6,855,800	(3,293,500)	1,290,659	52,294
Treasury Board	496,900	4,900	-	73,730

IMPROVING ACCOUNTABILITY

CANADIAN PUBLIC ACCOUNTS COMMITTEES AND LEGISLATIVE AUDITORS

SUMMARY OF RECOMMENDATIONS

1. Each Public Accounts Committee prepare and adopt a formal, written statement that describes the committee's role and responsibilities.

2. The written statement of role and responsibilities comprise a general statement of purpose and a list of issues that the committee is to examine, assess, report on to the legislature, and follow up with the administration, including:

   - the reliability and appropriateness of information in the Public Accounts to provide a full and fair accounting of operations and financial transactions;

   - the collection of, and proper accounting for, all taxes and other revenues due;

   - the maintenance of expenditures within the limits and for the purposes authorized by the legislature;

   - the adequacy of safeguards to protect assets from loss, waste and misappropriation;

   - the regard for economy in the acquisition of goods and services;

   - the regard for efficiency in operations; and

   - the effectiveness of programs in achieving their stated objectives.

3. Provision be made for the automatic and permanent referral to Public Accounts Committees of both the Public Accounts and the Auditor's report as soon as they become available.

4. Public Accounts Committees recognize their capacity to investigate any matter that is within their terms of reference.

5. Ministers be called as witnesses before Public Accounts Committees only when they have been personally involved in decisions under examination.

6. Chairmen of Public Accounts Committees explain to witnesses their legal position in regard to future actions that may arise from testimony.

7. Provision be made to allow Public Accounts Committees to meet whether the House is in session, recessed or prorogued.

8. Public Accounts Committees be limited to between 5 and 11 members.

9. Public Accounts Committees be appointed for the full term of the legislature, and not session by session.

10. Chairmen of Public Accounts Committees be members of the opposition.

11. Chairmen play a leading role in all aspects of committee work and participate in the questioning of witnesses and in other committee deliberations.

12. Chairmen of Public Accounts Committees serve for the life of a legislature or until replaced.

13. Committees elect vice-chairmen from among the government members.

14. Larger Public Accounts Committees appoint a steering committee to plan the work and to bring forward drafts of committee reports.

15. Ministers not be appointed as members of Public Accounts Committees.

16. One clerk, who gives first priority to these duties, be assigned to serve the Public Accounts Committee.

17. Research assistance be provided to Public Accounts Committees.

18. Consideration be given to compensating members of Public Accounts Committees for their attendance at meetings held when the legislature is not in session.

19. Consideration be given to appropriate financial recognition for the extra work and responsibilities assumed by the chairmen of Public Accounts Committees.

20. All Public Accounts Committee meetings for hearing testimony be open to the press and public, except when evidence of a particularly sensitive nature is to be given.

21. Meetings for planning future work, briefings, reviewing progress and drafting reports be held in camera.

22. Public Accounts Committees plan, in general terms, the work to be undertaken at the beginning of each session, and prepare formal agendas for public distribution at least one week ahead of each meeting.

23. Committees arrange for suitable briefing material to be available to members prior to hearings, and if necessary set time aside to review it.

24. A verbatim transcript of Public Accounts Committee hearings be prepared and published promptly.

25. Committees keep brief, formal minutes of proceedings.

26. Suitable meeting space, with appropriate facilities, be available to Public Accounts Committees.

27. Public Accounts Committees schedule sufficient, regular meetings to discharge their responsibilities.

28. Provision be made for legislators who are not members of Public Accounts Committees to attend meetings and participate in the questioning of witnesses, but not to vote.

29. Procedures for questioning witnesses be adopted that permit productive lines of questioning to be taken to their conclusion and allow all members an opportunity to participate.

30. Public Accounts Committees concentrate their attention on significant issues of management and financial administration rather than on isolated, unimportant, individual transactions.

31. Public Accounts Committees prepare substantive reports at least annually containing a summary of findings, a statement of conclusions, and recommendations for action to be taken by the government.

32. Wherever possible, Public Accounts Committee reports be arrived at through a consensus of all members of the committee.

33. Legislatures set aside time to debate the reports of Public Accounts Committees at least annually.

34. Public Accounts Committees adopt an effective procedure for following up their recommendations with the administration.

35. Auditors be required by legislation to express an opinion on the financial statements and the accounting policies underlying them.

36. Legislation specifically give Auditors responsibility for reporting on the adequacy of the information provided to the legislature in the Estimates and Public Accounts.

37. The legislation establishing the mandate of Auditors specifically include an examination and reporting on value-for-money issues, including regard for economy and efficiency in operations and procedures for evaluating and reporting on the effectiveness of programs in meeting their objectives.

38. Legislation provide that Auditors accept specific assignments from their legislatures, provided these do not take precedence over other duties assigned by statute.

39. Legislation provide that Auditors accept direction by the government to perform audits only if in their opinion such work would not interfere unduly with the performance of their regular duties.

40. Auditors not be responsible for any aspect of the government's financial administration including the pre-audit of expenditures.

41. Legislation make specific provision for the confidentiality of the Auditor's working papers.

42. Auditors be given legislative authority to obtain any information or documents they require from Crown organizations or their auditors, and to conduct any further examinations that they deem necessary.

43. Given a sufficient improvement in the timeliness of completing government accounts, Auditors work toward the goal of completing their annual reports within six months after the fiscal year end, and have their opinions and comments on the financial statements incorporated in the Public Accounts.

44. Auditors' annual reports be released to members of the legislature and to the public as soon as they are available, regardless of whether they have been tabled in the legislature.

45. The Auditor's annual report be presented to the Speaker, who shall table it in the legislature at the earliest opportunity.

46. Wherever possible and appropriate audit reports incorporate responses by the audited organizations to the Auditor's comments and recommendations.

47. Legislation provide that Auditors need not report matters that, in their opinion, are inconsequential.

48. Auditors follow up the recommendations made in their reports and ensure that the responses are made known to the Public Accounts Committees.

49. Statutory provision be made for Auditors to make special reports to the legislature on matters of urgency and importance.

50. Legislation clearly establish Auditors as officers of the legislature.

51. An objective, rigorous search process be used in filling a vacancy in the Auditor's position.

52. Mechanisms be devised to ensure that the individual appointed to the position of Auditor is acceptable to both government and opposition members of the legislature.

53. Statutory provision be made for filling a temporary vacancy in the office of Auditor, and such provision include safeguards to prevent interim appointments for unduly extended periods of time.

54. Auditors be appointed for a fixed, non-renewable term of no more than ten years.

55. The Auditor's salary be tied by statute to that of top public servants.

56. Provision be made for a review of the Auditor's budget by a representative group of legislators before it is presented to the House for approval.

57. Legislative provision be made for a special report to the legislature by Auditors in whose opinion the resources provided for the operation of their offices are insufficient.

58. Auditors have sufficient independence from central administrative controls to ensure that they can organize, staff and manage their offices and engage outside expertise as they see fit, within their budgets and within the provisions of legislation designed to protect the rights of public servants.

59. Legislative provision be made for an audit of the audit office, conducted by a qualified auditor who is not an employee of the Crown, with the results made available to the legislature.

60. Separate legislation be enacted dealing with the Auditor and the audit office.

61. A committee of senior representatives of all recognized parties in the House, including at least one minister, be given responsibility for approving the Auditor's budget for presentation to the House, for appointing and considering the reports of the Auditor's auditor, and for such other duties regarding the operation of the audit office as may be deemed appropriate.

62. Public Accounts Committees set aside time to familiarize themselves with the nature of the work and the responsibilities of the audit office, within the context of government financial administration.

63. Auditors and/or members of the audit staff attend all hearings of Public Accounts Committees to act and be used as a source of expert advice to the committees.

64. Public Accounts Committees make use of Auditors as advisers while preparing their agendas and reports and in briefings prior to their hearings.

65. Auditors discuss the general subject of the format and style of their reports with Public Accounts Committees.

66. Auditors prepare their reports with the needs of Public Accounts Committees in mind.

67. Auditors consider issuing separate reports on special studies or comprehensive audits as they are completed.

68. Public Accounts Committees be given the power to instruct Auditors, by resolution, to conduct specific examinations, provided that such assignments do not unduly interfere with the regular duties of the audit offices.

69. Public Accounts Committees discuss with Auditors the most appropriate manner of using the services of the audit offices to follow up committee recommendations.

DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS

SUMMARY ORGANIZATIONAL CHART

SCHEDULE "F"